



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Red Mesa Unified School District No. 27

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 22, 2006

Governing Board
Red Mesa Unified School District No. 27
HC 61 Box 40
Teec Nos Pos, AZ 86514-9600

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

In addition, we have not received the District's audit reports and compliance questionnaire for the year ended June 30, 2004, which were due by March 31, 2005. Consequently, the District has not complied with the USFR and state and federal law in regard to report submission, and we have notified the Arizona State Board of Education of the District's noncompliance.

Sincerely,

Debra K. Davenport
Auditor General

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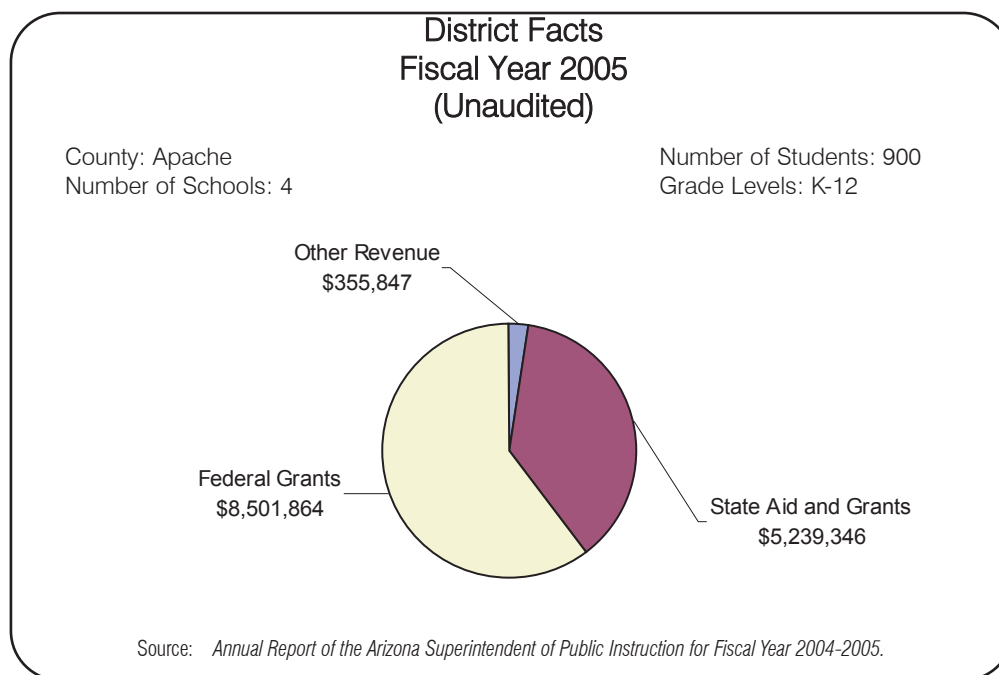
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INTRODUCTION

Red Mesa Unified School District No. 27 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$14 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must improve controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always

follow the School District Procurement Rules or USFR guidelines. For example, the District did not always issue invitations for bids for purchases that required them. Additionally, for purchases made using requests for proposals, the District did not determine, in writing, that the

use of competitive sealed bids was either not practicable or advantageous; indicate the relative importance of price and other factors; retain documentation to support that the District awarded the contract to the most advantageous proposal; or always compile a list of prospective bidders. Further, the District did not obtain three oral or written quotations for purchases that required them.

In addition, the District did not ensure that sufficient cash was available in cash-controlled funds before authorizing expenditures from those funds. Also, expenditures were not always recorded in the fiscal year in which the goods or services were received.

The District did not always follow competitive purchasing requirements or USFR guidelines, and therefore, may not have received the best value for the public monies it spent.

Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Have the Governing Board determine in writing that the use of competitive sealed bids is either not practicable or advantageous to the District before making purchases using competitive sealed proposals.
- Include all information required by the School District Procurement Rules in requests for proposals and retain all supporting documentation.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three quotations, it should document the contacted vendors and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Verify that sufficient cash is available in cash-controlled funds before approving purchases.
- Pay for goods and services received by June 30 in the fiscal year or within the 60-day encumbrance period following June 30. Goods or services received after June 30 should be paid for and recorded as expenditures in the following year.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete, and that transactions are properly recorded and authorized. However, the District did not fully accomplish this objective. Specifically, the District improperly classified transactions, posted journal entries more than once in the accounting records, and made unallowable transfers of monies between funds. Additionally, the District's budgeted expenditure amount for the Unrestricted Capital Outlay Fund exceeded the unrestricted capital budget limit, and capital asset amounts reported on the District's annual financial report (AFR) did not agree with the District's accounting records. Also, the District did not include the proper amount of budget balance carryover for each of its three Classroom Site Funds in its expenditure budget, and did not properly allocate its share of the loss on investments from the Local Government Investment Pool (LGIP), maintained by the State Treasurer, among applicable funds.

The District did not always properly record transactions in its accounting records.

Further, the District failed to meet statutory report submission deadlines, as it did not file its adopted expenditure budget or its AFR with the County School Superintendent (CSS) in a timely manner. In addition, the District did not file its affidavits of publication with the Superintendent of Public Instruction for its proposed expenditure budget or AFR.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

- Classify and record transactions in accordance with the USFR Chart of Accounts.

- Prepare prenumbered journal entry forms and retain supporting documents for each entry. Require a supervisor to review and approve them before they are posted to the accounting records.
- Transfer monies between funds only when authorized by statute.
- Ensure that its budgeted expenditures do not exceed applicable budget limits.
- Have a second employee verify that amounts reported on the AFR are accurate and agree with the accounting records before submitting it to the CSS and ADE.
- Carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year in accordance with statute.
- Record pooled investment losses as decreases in the fair value of investments in each applicable fund.
- Submit to the CSS and Superintendent of Public Instruction its adopted expenditure budget no later than July 18 and its AFR by October 15. In addition, the District must publish its AFR by November 15, as required by Arizona Revised Statutes §15-904.
- File its affidavits of publication for the proposed expenditure budget and the AFR with the Superintendent of Public Instruction within 30 days of publication and retain documentation of the filings.

The District's student attendance and transportation records should be supported by documentation

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not retain entry forms for all students, and the District was unable to document its 40th- and 100th-day membership and absences using its computerized attendance system. In addition, the District also receives support for pupil transportation based on reported amounts. However, the District did not retain documentation to support the amounts reported on its Transportation Route Report (TRAN 55-1).

The District did not maintain documentation to support its 40th- and 100th-day membership and absences.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should retain documentation, including student entry forms, to support membership and absences and transportation information reported to ADE. Also, the District should ensure that membership and absence days reported to ADE agree with the District's attendance register, attendance cards, or electronic records. Verifiable records must be retained by the District for 5 years, including the current fiscal year. Further, the District should prepare and retain adequate documentation to support the number of routes, route miles traveled, and the number of eligible students transported on its TRAN 55-1 report.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should improve controls over its capital assets

The District has invested a significant amount of money in its capital assets. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly accounted for and safeguarded. However, the District did not accomplish this objective. Specifically, the District did not update its capital assets summary schedule or retain supporting documentation for asset disposals. Additionally, the District had not performed a physical inventory of its capital assets in the last 3 years.

The District did not retain supporting documentation for over \$660,000 in capital asset disposals.

Recommendations

To strengthen controls over capital assets and help ensure that the capital assets list is accurate, the District should prepare and maintain disposal authorization forms to authorize the sale or disposal of capital assets and ensure that, when assets are disposed of, they are either removed from the capital assets list or included on a disposal list that will be used to update the list at year-end. The District should update its capital assets and stewardship lists at least annually. In addition, the District should ensure that a physical inventory is performed of all equipment and vehicles at least every 3 years by an employee who has no custodial responsibilities. That employee should reconcile the physical inventory results to the capital assets and stewardship lists, and a supervisor should correct the lists as necessary.

A sample Request for Authorization to Dispose of Equipment form is on USFR page VI-E-12.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

The District’s controls over student activities monies should be improved

The District could not provide support for a \$2,400 disbursement from the student activities bank account.

The District holds student activities monies raised through students’ efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for spending them. However, the Governing Board did not establish proper oversight. Specifically, the District did not always maintain documentation to support student activities disbursements. In addition, the District did not always ensure that individual student clubs had sufficient cash balances before authorizing disbursements.

Recommendations

To strengthen controls over student activities monies, the District should prepare and retain supporting documentation, such as student club minutes, purchase requisitions, purchase orders, and vendor invoices for all disbursements. Disbursements may be made from the student activities account only if approved by the individual club and documented in the club’s minutes. Checks must be signed by either the student activities treasurer or an assistant student activities treasurer, and a second signer authorized by the Governing Board. In addition, the District should verify that individual student club cash balances are sufficient before authorizing disbursements.

USFR §X-H provides general policies and procedures for student activities.